



Faculty of Economics and Business

**CAUSALITY BETWEEN ECONOMIC GROWTH AND TOURIST
ARRIVALS: THE CASE OF INDO-CHINA**

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**KAUSALITAS ANTARA PERTUMBUHAN EKONOMI DAN KETIBAAN
PELANCONG: KES INDO-CHINA**

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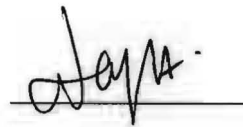
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ABSTRACT

CAUSALITY BETWEEN ECONOMIC GROWTH AND TOURISM EXPANSION: THE CASE OF INDO-CHINA

By

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This paper aims to examine the relationship between tourist arrivals and economic growth in Cambodia, Vietnam, Myanmar, Laos, and Thailand, or more commonly known as the Indo-China countries. Autoregressive Distributed Lag (ARDL) approach which performs well with small sample and regardless of the orders of the respective time series is adopted in this study as small sample size is used in this study. The empirical results of this study indicate the existence of short-run causal relationship between tourist arrivals and economic growth in Cambodia, Thailand, and Vietnam.

ABSTRAK

KAUSALITAS ANTARA PERTUMBUHAN EKONOMI DAN KETIBAAN PELANCONG: KES INDO-CHINA

Oleh

YONG WEN YEE

Kertas ini bertujuan untuk memeriksa hubungan antara ketibaan pelancong dan pertumbuhan ekonomi di Kemboja, Vietnam, Myanmar, Laos, and Thailand, atau dikenali sebagai Negara-negara Indo-China. Autoregresif Lat Teragih (ARDL) pendekatan di mana pendekatan ini dapat dilaksanakan dengan baik dengan sampel kecil dan tanpa mengira arahan siri masa berkenaan diterima dalam kajian tersebut disebabkan sampel saiz kecil digunakan dalam kajian ini. Keputusan empirical kajian ini menunjukkan kewujudan hubungan jangka pendek antara ketibaan pelancong dan pertumbuhan ekonomi bagi Kemboja, Thailand and Vietnam.

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CHAPTER 1

INTRODUCTION

According to United Nations Statistical Commission in 1993, Tourism comprises the activities of persons travelling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. The travel and tourism sector is considered as one of the largest in the world, particularly in terms of its contribution to the world economy. According to WTTC estimates, travel and tourism has already achieved significant economic impact directly and indirectly in the year 2001 with USD 3.3 trillion contributed to global GDP as well as contributed 207 million jobs worldwide.

Moreover, worldwide tourism grew from 25 million arrivals in 1950 to 825 million in 2007, with an average annual growth rate of 6.5 percent (WTO, 2007). The world international tourist receipts amounted to more than 800 billion dollars in 2007 compared to 1906.5 billion dollars in 1980 (WTO, 2007). According to the study of Lea (1988) and Sinclair (1988), the potential of tourism sector in promoting growth, creating jobs and generating revenue for the government. This tourism issue has attracted great interest where there was great number of study conducted regarding these sector.

Although there were great amount of study on this issue, study conducted on the developing countries are still inadequate compared to the tourism study in developed countries such as Korea and Taiwan. Therefore, this paper aims to fill the gap in the literature by examining the relationship between tourist arrivals and

economic growth. To be more specific, this study also aims to determine whether there is long run relationship between tourist arrivals and economic growth in Indo-China countries. Moreover, the short run causality as well as long run causality relationship between the tourist arrivals and economic growth in Indo-China countries is examined.

Chapter 1 is organized as below. Section 1.1 gives a brief discussion on the concept of study. Section 1.2 discusses the concept of variables, while section 1.3 discusses the significance of study followed by Section 1.4 which provides the background of countries studied. Section 1.5 discusses the motivation of study, Section 1.6 provides the scope of study, Section 1.7 discusses the problem statement followed by Section 1.8 which provides the objectives of study and Section 1.9 details the structure of study.

1.1 Concept of Study

The relationship between economic growth and tourist arrivals is often examined with three hypotheses. They are the tourism-led economic growth hypothesis, the economic-driven tourism growth hypothesis and the two-way causal hypothesis which contain both the previous hypotheses. This paper examines the relationship between the economic growth and tourist arrivals which take into consideration the Real Gross Domestic Product (RGDP), number of tourist arrivals, and tourism receipts.

This paper is crucial as the relationship between these two variables give great impact to the policymakers to decide or design effective as well as efficient policy on the tourism sector. The countries of study in this paper are Cambodia, Vietnam, Thailand, Myanmar, and Laos which are known as Indo-China countries.

1.2 Concepts of Variables

1.2.1 Real Gross Domestic Product (RGDP)

Economic growth is measured in terms of an increase in the size of a nation's economy. To measure the economy's size, output is a very crucial key. Gross Domestic Product is most widely used in measuring the economic output. Liebermann (2011) stated that Real Gross Domestic Product (GDP) is important to policy-makers, financial market participants and businesses.

Commonly, Real Gross Domestic Product (GDP) is a macroeconomic measure of the value of output economy which it is adjusted for prices changes which also known as inflation or deflation. Generally, Gross Domestic Product is defined as the market value of the goods and services produced by a country. There are various ways in calculating a nation's Real Gross Domestic Product (GDP). There are three approaches to calculate Real Gross Domestic Product (GDP). Firstly, it is the expenditure approach. The expenditure approach calculates Real Gross Domestic Product (GDP) by summing up all the four possible types of expenditures as follows:

$$\text{GDP} = \text{Consumption} + \text{Investment} + \text{Government Purchases} + \text{Net Exports} \quad (1.0)$$

Consumption is the largest component in GDP. It is calculated by adding the durable and non-durable goods and services expenditures. Investment includes investment in fixed assets and increases in inventory. For government purchases are equal to the government expenditures less government transfer payments such as welfare and unemployment payments. Next exports are exports minus imports.

The other two approaches to calculate Real Gross Domestic Product (GDP) are product approach and income approach. Product approach calculates the market value of goods and services produced while income approach sums the income received by all producers in the country. These three approaches are equivalent, with each giving the same result.

1.2.2 Tourist arrivals

Tourism Growth can be defined as the tourism development in a country. In this study, tourism growth or expansion is studied by using the variables which are the number of tourist arrivals, and tourism receipts. According to World Tourism Organization (WTO) report, international tourism encompasses the activities of visitors who make visits across their own residential area to the international borders and remain there for more than 24 hours. Tourism activities involved both the consumption as well as purchase of goods and services, when this specific tourism sector expanded, it will be reflected in the various sectors of the national economy. Therefore, there might be a significant relationship between tourism growth and economic growth.

1.3 Significant of Study

Generally, in most study, tourist arrivals are found to be producing the positive effect on the economic growth. However, there is study found that the economic growth benefits the tourist arrivals or both are affecting each other in few countries. Thus, three hypotheses are applied in most of the tourism study to study on the relationship between the economic growth and tourist arrivals which are the tourism-led economic growth hypothesis, the economic-driven tourism growth hypothesis and the two-way causal hypothesis which contain both the previous hypothesis.

Thus, it is very important to study on different countries to see the relationship between these two variables. This paper seeks to investigate the relationship between economic growth and tourist arrivals for Cambodia, Vietnam, Thailand, Myanmar, and Laos which is well known as Indo-China countries. Indo-China countries are now countries which is emerging and developing at a fast rate. Hence, it is worth and important to investigate the relationship between economic growth and tourist arrivals since Indo-China countries is now concentrating a lot in the tourism sector.

The importance of this paper is that to examine the type of relationship between economic growth and tourist arrivals. By knowing the type of relationship, policymakers could set priorities regarding where and how to use limited resources for national growth. If empirical results support a tourism-led economic growth, more resources should be allocated to tourism and travel industries prior to other segments. If an economic-driven tourism holds true, the government should allocate the resources to the leading sector for economic growth. However, if reciprocal

relationship exists, resources should be equally allocated to tourism and other major industries.

1.4 Background of Indo-China countries (Cambodia, Vietnam, Myanmar, Thailand and Laos)

The Indo-China countries region is situated in the South East Asia and lies roughly southwest of China and east of India. The Indo-China countries peninsular consist of former French territories, namely, Cambodia, Laos, Vietnam, Myanmar and Thailand. There all share the similar historical background and culture as there are bounded together as a peninsular.

1.4.1.1 Cambodia

Cambodia is located in the centre of South East Asia, sharing its border with Thailand on the west and Vietnam on the east. The population of Cambodia is relatively small with only 14 million people compared to its neighbours which population is higher. In the 1970s, Cambodia turned to be a republic state; this turning point can be regarded as the collapse of Cambodian socio-economic system. At the meantime, war was waged against the government lead by Shihanouk and North Vietnam, which resulted in a serious damage on the economy. Although the war ended in April 1975, the culture, social and economic systems were destroyed for more than three years.

Cambodia had still been an agricultural based economy till the 1980s. The whole states's economy is supported by the rice, rubber, timber, fishery and other

agriculture products. It is estimated that over 80% of the labour force was involving in agricultural sector, whereas industrial sector was in a relatively small scale. After the Paris Peace Accords in 1991, peace came to Cambodia after a decade long war. This peace leads to a stability of politics and Cambodia becomes a country with a transition economy from socio-economy into a market-oriented economy.

In 1993, it is the starting point of transition period where UNTAC and NGO moved to Cambodia. UNTAC had the objective to keep peace while NGO aimed to cut down the poverty in Cambodia. The economic condition can be recognized as economy depended on foreign aid.

In August 1994, Cambodia enacted its Investment Law and the Government established the Council for the Development of Cambodia(CDC) as ‘one-stop shop’ for approving foreign investment companies, mostly from ASEAN’s ethic Chinese such as Malaysia, Singapore, Taiwan and mainland-China. There is also some that come from the USA, United Kingdom, Australia and France.

Cambodia enjoyed its high level of economic growth until 1997, which is the year that two shocks affected its economy. The very first shock was the Asian Financial Crisis, and the second one was a local politic disorders. At that time, most of the international aid instructions immediately hold their economic production and the foreign direct investment fund was intensely decreased as well. However, the economic condition was back to track toward recovery due to the result of the persistence in local politics pressure and the joint with ASEAN regional economy in April 1999.

Despite being an agriculture-based economy, tourism has been strongly emphasized and developed in Cambodia since 1960s. However, civil war had seriously damaged tourism industry in 1970s and 1980s. Tourist arrivals have increased dramatically from the 1993 to 2007 with an annual increase average of about 30 percent (Chheang, 2009). Tourism has become one of the most crucial industries contributing to economic development in Cambodia. Tourism is the third largest contributor to the Cambodian economy after agriculture and textile industry.

1.4.1.2 Tourism development in Cambodia

Cambodia used to be one of the most famous tourist destinations in Southeast Asia with the record of annual tourist arrivals of 50,000 to 70,000 in 1960s. (Lam, 1996). However, the tourism industry is totally destroyed due to the decades of civil war, particularly the genocidal regime of the Khmer Rouge. These conflicts only ended in the early 1990s. With the strong support from the international community, Cambodia again realised peace and socio-economic reconstruction.

Since 1990s, tourism in Cambodia has developed very well in the country and the government views it as one of the most important foreign exchange earners and employment providers for Cambodia's economic development. Moreover, this also helps in erasing the previous image of Cambodia which is well-known for killing fields and land mines. Tourism sector also become the engine for the political legitimacy as well as the national and cultural identity of Cambodia (Chheang, 2008).

In 2005, tourism generated income of 832 million US Dollars, or about 13 percent of the Cambodian Gross Domestic Product (GDP). In 2006, tourism